

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2017-13-A - ORDER NO. 2018-_____

IN RE: Application of Chem-Nuclear Systems, LLC,)	JOINT PROPOSED ORDER APPROVING AND IDENTIFYING ALLOWABLE COSTS
A Subsidiary of EnergySolutions Company)	
for Adjustment in the Levels of Allowable)	
Costs and for Identification of Allowable)	
Costs (Fiscal Year 2017-2018))	

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (“PSC” or the “Commission”) by way of the Application of Chem-Nuclear Systems, LLC, a subsidiary of Energy Solutions Company (“Chem-Nuclear” or the “Company”), dated September 28, 2017 (the “Original Application”). By its Original Application, Chem-Nuclear sought an adjustment in the levels of certain allowable costs for Fiscal Year 2016-2017, which the Commission had previously identified, and for the identification of allowable costs for Fiscal Year 2017-2018, all of which are associated with the operation of the Company’s regional low-level radioactive waste disposal facility located in the vicinity of Barnwell, South Carolina (the “Barnwell Facility”). The Original Application was submitted pursuant to the pertinent provisions of the Atlantic Interstate Low-level Radioactive Waste Compact Implementation Act (the “Act”), which is codified as S.C. Code Ann. § 48-46-10, et. seq. (2008 & Supp. 2017). On March 6, 2018, the Company filed and served an Amended Application and Exhibits which proposed certain revisions in the information contained in the Original Application to reflect the Company’s reconciliation of certain issues with the Office of Regulatory Staff (“ORS”). Also on March 6, 2018, the Company filed and served the Direct

Testimony of Benjamin S. Smith, reflecting the position of the Company as contained in the Amended Applications and Exhibits.

The Act established a comprehensive economic regulatory program and governs the relationship between the State of South Carolina and operators of facilities for the disposal of low-level radioactive waste. Among other things, the Act provides for South Carolina's membership in the Atlantic Interstate Low-Level Radioactive Waste Management Compact Commission (the "Compact Commission"), and authorizes the manner in which South Carolina participates in the Compact Commission with the other two member states, Connecticut and New Jersey. S.C. Code Ann. § 48-46-20 (2008 & Supp. 2017).

The Act fixed a schedule of annually declining maximum volumes of low-level radioactive waste that a disposal facility in South Carolina may accept from generators within and without the Compact Commission's member states. S.C. Code Ann. § 48-46-40(A)(6)(a) (Supp. 2017). Starting on July 1, 2008, the Barnwell Facility was limited to accepting waste exclusively from generators in South Carolina, New Jersey and Connecticut, the three Compact Commission states.

In addition, the Act fixes responsibility for the approval of disposal rates for low-level radioactive waste and provides for the disposition of revenues produced by the operation of disposal facilities subject to the Act. The Barnwell Facility is the only disposal facility for low-level radioactive waste in South Carolina.

Under the Act, the Commission has the responsibility to identify the "allowable costs" of a disposal facility operator. S.C. Code Ann. § 48-46-40(B)(1) (Supp. 2017). "Allowable costs" are "costs to a disposal site operator of operating a regional disposal facility," and they "are limited to costs determined by standard accounting practices and regulatory findings to be associated with

facility operations.” S.C. Code Ann. § 48-46-30(1) (2008). The Act provides that “allowable costs” expressly include the costs of certain specifically identified activities necessary in the operation of a low-level radioactive waste facility, in addition to any other costs directly associated with disposal operations determined by the Commission as allowable. S.C. Code Ann. § 48-46-40(B)(3)(a) through (n) (Supp. 2017). The Act excludes from identification as “allowable costs” the costs of certain expressly listed activities “and other costs determined by the PSC to be unallowable.” S.C. Code Ann. § 48-46-40(B)(3) (Supp. 2017).

The Act entitles a disposal facility operator to recover an operating margin of twenty-nine percent (29%). This operating margin is authorized for the total amount of all identified “allowable costs,” excluding allowable costs for taxes, licensing, and permitting fees which the operator is required to remit to governmental entities. S.C. Code Ann. § 48-46-40(B)(5) (Supp. 2017).

The level of “allowable costs” and the statutory operating margin affect the amount of annual revenue that a disposal facility operator remits to the State of South Carolina. At the end of the fiscal year, the operator pays the South Carolina Department of Revenue an amount equal to the total revenue that the operator had received for waste disposal services during the fiscal year, reduced by the operator’s identified “allowable costs,” and reduced further by the twenty-nine percent (29%) statutory operating margin on the “allowable costs” under the Act, and reduced further by payments that the operator made during the fiscal year for reimbursement of administrative costs incurred for the conduct of certain state agencies’ functions in administering the Act. S.C. Code Ann. § 48-46-60(B) and (C) (Supp. 2017).

The Act provides that the operator of a low-level radioactive waste disposal site may apply to the Commission for adjustments in the levels of “allowable costs” which the Commission had

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identified for the previous fiscal year and for identification of costs which the Commission had not previously identified as “allowable costs.” S.C. Code Ann. § 48-46-40(B)(4) (Supp. 2017). Upon disposition of the issues in an application, the Act requires the Commission to authorize the site operator to adjust its “allowable costs” for the current fiscal year to compensate the site operator for revenues “lost” during the previous fiscal year (that is, the difference between the level of “allowable costs” previously identified and the level of “allowable costs” identified upon approval of the application). Id.

Chem-Nuclear filed its Original and Amended Applications in this proceeding seeking to adjust the level of certain “allowable costs” which the Commission identified in Order No. 2017-378 and the amount of such costs that the Company actually experienced in the Fiscal Year 2016-2017. The Original and Amended Applications also sought identification of the Company’s “allowable costs” for Fiscal Year 2017-2018. Chem-Nuclear’s Amended Application sought an adjustment or additional compensation for the Company for “allowable costs” incurred in Fiscal Year 2016-2017 as the actual costs specified in the Amended Application as allowable variable labor and variable non-labor costs were more than those identified and approved in Order No. 2017-378. Amended Application for Fiscal Year 2017-2018, ¶11 and Amended Exhibit A to the Amended Application.

Upon receipt of the Company’s Original Application, the Commission’s Docketing Department directed Chem-Nuclear to publish a Notice of Filing, advising the public of the submission of the Original Application and of the manner in which interested persons might intervene or otherwise participate in this proceeding. Chem-Nuclear filed affidavits of publication which demonstrated its compliance with the instructions of the Docketing Department.

The Act specifies certain agencies to be parties of record in proceedings for identification of “allowable costs” before the Commission. Those parties are the Executive Director of the ORS and the Attorney General for the State of South Carolina. S.C. Code Ann. § 48-46-40(B)(9) (Supp. 2017). In addition, the Compact Commission and the South Carolina Department of Health and Environmental Control (“DHEC”) have the discretion under the Act to participate as parties. *Id.* Pursuant to the provisions of S.C. Code Ann. § 48-46-40(B)(9), ORS participates as a party to these proceedings in order to represent “the interests of the State of South Carolina.”

On April 26, 2018, the Commission held an evidentiary hearing with respect to the Company’s Amended Application. The Honorable Swain E. Whitfield, Chairman, presided. Josh Minges, Esquire, served as Advisor to the Commission. Appearances were as follows: J. David Black, Esquire, represented Chem-Nuclear and Jenny Pittman, Esquire and Andrew M. Bateman, Esquire, represented ORS. There were no intervenors in this docket. The South Carolina Attorney General’s Office did not appear or participate in the hearing.

At the hearing, Chem-Nuclear presented the testimony of one witness, Benjamin S. Smith, Chem-Nuclear’s Director for Barnwell Disposal Operations, who presented his testimony and answered questions from the Commission regarding the operation of the Barnwell facility. Chem-Nuclear’s Amended Application, with attached Amended Exhibits A, B, and C, was entered into the record as Hearing Exhibit No. 1. ORS’s Examination Report, with attached Exhibits 1 and 2, was entered into the record as Hearing Exhibit No. 2.

II. DISCUSSION OF ISSUES

All of the issues relating to the identification of “allowable costs” for Fiscal Year 2016-2017 and for Fiscal Year 2017-2018 were resolved between the parties or were not contested in

the evidence or positions of the parties. Consequently, the Commission will discuss the issues in general to reflect our reliance upon the evidentiary record for the findings and conclusions in this order.

A. “Allowable Costs” for Fiscal Year 2016-2017

In accordance with the provisions of the “Collaborative Review of Chem-Nuclear’s Operations and Efficiency Plan” (“OEP”), approved in Order No. 2004-349 for use in these “allowable cost” proceedings, Chem-Nuclear’s Original and Amended Applications separated costs into three (3) categories: fixed, variable and irregular. See Hearing Exhibit 1, Amended Exhibit A and Hearing Exhibit No. 2, ORS Examination Report, Exhibit 1. As recognized in Order No. 2004-349, the OEP was valid for use as a “baseline for establishing a method for identifying ‘allowable costs.’” Order No. 2004-349, p. 17.

1. Fixed Costs for Fiscal Year 2016-2017

Chem-Nuclear separated its fixed costs for Fiscal Year 2016-2017 into several general categories: labor, fringe and non-labor costs, corporate allocation of general and administrative expense, equipment leases and support, depreciation, and insurance, as well as those fixed costs for which the statutory operating margin was not applicable, such as legal support. The Company’s operating expense for that period resulted in total fixed costs of \$3,622,071, which Chem-Nuclear actually incurred. Hearing Exhibit No. 1, ¶10 and Amended Exhibit A, p. 1. The total fixed costs incurred for 2016-2017 were \$130,461 more than the level of fixed costs anticipated in Order No. 2017-378. Hearing Exhibit No. 1, Amended Exhibit A, p. 1 and Hearing Exhibit No 2, ORS Examination Report, Exhibit 1, p. 1. The record supports the identification of \$3,622,071 as fixed “allowable costs” for Fiscal Year 2016-2017.

2. Variable Material Costs for Vaults for Fiscal Year 2016-2017

The actual costs for vaults are predicated on a number of factors, including the size and shape of waste packages and the number and size of vaults required for disposal. For Fiscal Year 2016-2017, Chem-Nuclear's actual cost for disposal vaults was \$272,929. Hearing Exhibit No. 1, Amended Exhibit A, p. 3. This amount is \$34,290 less than the \$307,219 estimated vault cost calculated using the rates established in Order No. 2017-378. Therefore, the Company does not propose any adjustment in this category of costs.

3. Variable Labor Costs and Non-Labor Costs for Fiscal Year 2016-2017

Order No. 2017-378 determined various categories of rates applicable to the following: vault purchase and inspection (per vault), ABC waste disposal (per shipment), slit trench waste operations (per slit trench offload), customer assistance (per shipment), and maintenance of trench records (per container). See Hearing Exhibit No. 1, Amended Exhibit A, p. 2. The Company incurred actual variable labor and non-labor costs of \$152,918 in Fiscal Year 2016-2017, which the Company has requested to be included in this category of costs for Fiscal Year 2016-2017. *Id.* This amount is \$37,390 more than the amount that was anticipated based on rates provided in Commission Order 2017-378. The record supports treatment of actual variable labor and non-labor costs of \$152,918 as "allowable."

4. Irregular Costs for Fiscal Year 2016-2017

Irregular costs include costs for projects that are nonrecurring annually or varying costs for projects which continue for more than a year. This category includes, but is not limited to, costs associated with trench design, site engineering, decontamination and corrective actions, and license renewal and appeal costs. See Hearing Exhibit No. 1, Amended Exhibit A, pg. 4. The

record contains descriptions of each project and the actual costs that Chem-Nuclear incurred for them in Fiscal Year 2016-2017. Id., Hearing Exhibit No. 1, Amended Exhibit B. The evidence in the record establishes that Chem-Nuclear incurred actual irregular costs for Fiscal Year 2016-2017 of \$437,635. Hearing Exhibit No. 1, Amended Exhibit A, p. 4, and Hearing Exhibit No. 2, Exhibit 1, pg. 2. This amount is \$30,315 more than the \$407,320 in estimated Irregular Costs provided in Commission Order No. 2017-378. The record supports treatment of actual irregular costs for fiscal year 2016-2017 of \$437,635 as “allowable.”

B. Proposed “Allowable Costs” for Fiscal Year 2017-2018

Chem-Nuclear’s Amended Application and the evidence in the record presented “allowable costs” to be identified for Fiscal Year 2017-2018, separated into the three (3) cost categories that were described in the Collaborative Review of the OEP and adopted in Order No. 2004-349.

1. Allowable Fixed Costs for Fiscal Year 2017-2018

Chem-Nuclear proposed fixed costs of \$3,453,419 to be identified as “allowable costs” for Fiscal Year 2017-2018. That amount was based on costs incurred in the first half of Fiscal Year 2017-2018 and activities anticipated for the second half of the Fiscal Year. Hearing Exhibit No. 1, Amended Exhibit C, p. 6, and Hearing Exhibit No. 2, Exhibit 2, pg. 1.

2. Allowable Irregular Costs for Fiscal Year 2017-2018

Chem-Nuclear’s Amended Application includes general categories of projects with estimated total costs of \$532,367, which it categorized as irregular costs for Fiscal Year 2017-2018. These irregular costs, identified in Amended Exhibit C in Hearing Exhibit No. 1, are based on costs incurred in the first half of Fiscal Year 2017-2018 and activities anticipated for the second

half of the Fiscal Year.

3. Variable Material Cost (Vaults) Rates for Fiscal Year 2017-2018

For Fiscal Year 2017-2018, Chem-Nuclear proposed variable material cost rates for each category of waste based upon actual experience during Fiscal Year 2016-2017, inflated by 3%. Hearing Exhibit No. 1, Amended Exhibit C.

4. Variable Labor and Non-Labor Rates for Fiscal Year 2017-2018

For Fiscal Year 2017-2018, Chem-Nuclear proposed rates for variable labor and non-labor costs. Hearing Exhibit No. 1, Amended Exhibit C. Those rates pertained to five (5) categories: vault purchase and inspection (per vault); ABC waste disposal (per shipment); slit trench operations (per slit trench offload); customer assistance (per shipment); and trench records (per container). The rates for vault purchase and inspection, ABC waste disposal, slit trench operations, customer assistance, and trench records were based on actual experience during Fiscal Year 2016-2017, inflated by 3%.

III. FINDINGS AND CONCLUSIONS

1. The Public Service Commission of South Carolina is authorized and directed by S.C. Code Ann. § 48-46-40(B), et seq. (Supp. 2017) to identify allowable costs for Chem-Nuclear's operation of a regional low-level radioactive waste disposal facility in South Carolina. The facility is located in Barnwell, South Carolina.

2. Chem-Nuclear has operated the disposal site continuously since 1971 without interruptions. Undisputed amounts in Chem-Nuclear's accounts that will herein be identified and approved by this Commission as "allowable costs" for Fiscal Year 2016-2017 are included in *Appendix A*, which is attached to this Order.

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3. Further, we approve and identify as “allowable costs” for Fiscal Year 2017-2018 the individual figures and the sum of \$3,985,786 in fixed and irregular costs, as reflected in *Appendix B*, which is attached to this Order.

4. We further approve the variable cost rates for Fiscal Year 2017-2018, as those costs and rates are depicted in *Appendix B*, which is attached to this Order. The actual expense in the variable cost category will be dependent on the actual volumes and classes of waste received. The rates in *Appendix B* are appropriately documented and supported by evidence in the record of this proceeding.

5. Chem-Nuclear shall continue to submit monthly reports of variable cost data to the Commission as required by Commission Order No. 2001-499.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Swain E. Whitfield, Chairman

ATTEST:

Comer H. Randall, Vice Chairman

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APPENDIX A – Order No. 2018-_____
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Chem-Nuclear Systems, LLC
Allowable Costs
Fiscal Year Ending June 30, 2017

<u>Description</u>	<u>Allowable Cost</u>
Fixed Costs	
Labor, Fringe and Non-Labor	\$2,133,895
Depreciation	\$115,401
Insurance	\$349,516
Equipment Leases and Support	\$153,281
Corporate Allocations (G&A)	\$868,700
Legal Support (License Appeal)*	\$1,278
Total Fixed Costs	\$3,622,071
Variable Costs	
Vault Costs	\$272,929
Variable Labor and Non-Labor**	\$152,918
Total Variable Costs	\$425,847
Irregular Costs	
Total Irregular Costs	\$437,635
Total Allowable Costs	\$4,485,553

* Not subject to statutory operating margin.

**Categories of costs include: Vault Purchase and Inspection, ABC Waste Disposal, Slit Trench Operations, Waste Acceptance and Trench Records.

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Chem-Nuclear Systems, LLC
Allowable Costs
Fiscal Year Ending June 30, 2017

<u>Irregular Cost Item</u>	<u>Labor</u>	<u>Non Labor</u>	<u>Total Cost</u>
Various Trenches	\$10,195	\$91,994	\$102,189
License Renewal and Appeal	(\$52)	\$0	(\$52)
Trench Records Software	\$1,393	\$27,217	\$28,610
Site Engineering and Drawing Updates	\$0	\$0	\$0
Site Maintenance	\$1,579	\$117,973	\$119,552
Site Assessments	\$0	\$0	\$0
Large Component Disposal	\$43,279	\$138,490	\$181,769
Irregular Severance Pay	\$5,567	\$0	\$5,567
<u>Total Irregular Costs</u>	<u>\$61,961</u>	<u>\$375,674</u>	<u>\$437,635</u>

APPENDIX B – Order No. 2018-_____
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Chem-Nuclear Systems, LLC
Allowable Costs
Fiscal Year 2017-2018 (Ending June 30, 2018)

<u>Description</u>	<u>Allowable Cost</u>
Fixed Costs	
Labor, Fringe and Non-Labor	\$2,001,198
Depreciation	\$144,927
Insurance	\$297,750
Equipment Leases and Support	\$129,801
Corporate Allocations (G&A)	\$845,743
Legal Support (License Appeal)*	\$34,000
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Total Fixed Costs	\$3,453,419
Irregular Costs	
Trenches (Design, Construct, Backfill)	\$210,000
License Renewal and Appeal	\$5,000
Trench Records Software	\$5,000
Site Engineering and Drawing Updates	\$25,000
Site Maintenance	\$5,000
Security Upgrades	\$10,000
Severance/Incentive	\$2,000
Large Component Disposal	\$270,367
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Total Irregular Costs	\$532,367
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Total Fixed and Irregular Costs	\$3,985,786
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Variable Costs	
<u>Variable Labor and Non-Labor Rates</u>	
Vault Purchase and Inspection (per vault)	\$173.84
ABC Waste Disposal (per shipment)	\$2,427.56
Slit Trench Shipment (per offload)	\$37,425.65
Customer Assistance (per shipment)	\$107.63
Trench Records (per container)	\$594.60
<u>Variable Material Costs (Vault Costs)</u>	
Class A Waste (per cubic foot)	\$38.93
Class B Waste (per cubic foot)	\$53.00
Class C Waste (per cubic foot)	\$55.57
Slit Trench Waste (per cubic foot)	\$202.33